

Exhibit _ (JEA-1A)

**Originally Filed As Direct Testimony of
Jimmy Addison
on Behalf of
South Carolina Electric & Gas Company in
Docket No. 2017-370-E**

**DIRECT TESTIMONY
OF
JIMMY E. ADDISON**

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DIRECT TESTIMONY

OF

JIMMY E. ADDISON

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2017-370-E

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

A. My name is Jimmy E. Addison and my business address is 220 Operation Way, Cayce, South Carolina. I am the Chief Executive Officer (“CEO”) of SCANA Corporation (“SCANA”) and each of its subsidiaries including South Carolina Electric & Gas Company (“SCE&G” or the “Company”).

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I am a graduate of the University of South Carolina with a Bachelor of Science Degree in Business Administration, majoring in accounting, and a Master of Accountancy Degree. I am also a Certified Public Accountant (“CPA”) in South Carolina.

I joined the Company in March 1991. I became the CEO of the Company on January 1, 2018. Before that time, I served as the Executive

1 Vice President and Chief Financial Officer (“CFO”) of SCE&G and
2 SCANA.

3 Prior to joining the Company, I was employed for seven years by
4 Deloitte & Touche. I was also a partner in the public accounting firm of
5 Hughes, Boan and Addison immediately prior to joining the Company.

6 **Q. HAVE YOU EVER TESTIFIED BEFORE THE PUBLIC SERVICE**
7 **COMMISSION OF SOUTH CAROLINA BEFORE?**

8 A. Yes. I have testified before the Public Service Commission of South
9 Carolina (the “Commission”) in a number of different proceedings.

10 **Q. WHAT WAS YOUR INVOLVEMENT WITH THE NEW NUCLEAR**
11 **DEVELOPMENT PROJECT?**

12 A. In my role as CFO, I was responsible for preparing and executing the
13 financial plan for funding the new nuclear development project (the “NND
14 Project” or the “Project”). In late 2015, I became involved in the
15 negotiations of some of the financial and commercial aspects of the
16 Amendment (the “Amendment”) to the Engineering, Procurement and
17 Construction Agreement for the NND Project (the “EPC Contract”). I also
18 was involved in managing SCE&G’s response to the Westinghouse Electric
19 Company, LLC (“Westinghouse”) bankruptcy filing in 2017.

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21 A. My testimony describes the proposed combination of SCANA with
22 Dominion Energy, Inc. (“Dominion Energy”), which would result in

1 SCANA and SCE&G becoming subsidiaries of Dominion Energy. I
2 describe the events leading up to the proposed combination and the
3 decision by SCANA's Board of Directors to propose that SCANA's
4 shareholders approve the combination. I will outline the terms of the
5 combination agreement and the benefits of the combination to SCE&G's
6 customers, to the State of South Carolina and to the communities that
7 SCE&G serves. The regulatory plan that Dominion Energy and SCE&G
8 will provide if the combination closes is referred to in the Joint Petition and
9 in my testimony as the "Customer Benefits Plan."

10 My testimony will also outline the two disfavored alternatives that
11 SCE&G proposes if for any reason the Dominion Energy combination does
12 not close. The first disfavored proposal, the "No Merger Benefits Plan,"
13 provides SCE&G's customers with important financial benefits to reduce
14 the impact of the NND Project on them. But compared to the Customer
15 Benefits Plan, it is a disfavored alternative because it provides fewer
16 benefits for customers.

17 The second disfavored proposal set forth in the Joint Petition—the
18 "Base Request"—involves a straightforward application of current statutes
19 to this matter, with no consideration of rate mitigation other than the
20 decision not to ask for a rate increase in this proceeding and the use of the
21 Toshiba proceeds to reduce capital balances associated with the NND

1 Project. It is presented as a third-tier option if the combination does not
2 close and if the No Merger Benefits Plan is not approved.

3 **Q. DO YOU TESTIFY CONCERNING PRUDENCY MATTERS?**

4 A. Each of the three regulatory plans involves a determination by the
5 Commission of the prudence of the decision by SCE&G to abandon
6 construction of the NND Project. That determination is sought under S.C.
7 Code Ann. § 58-33-280(K) and other laws and regulations that the
8 Commission administers.

9 In support of that determination, my testimony provides an overview
10 of the history of the Project subsequent to the regulatory and prudence
11 reviews conducted by the Office of Regulatory Staff ("ORS") and this
12 Commission in Docket Nos. 2016-223-E and 2016-224-E. These were the
13 most recent proceedings to review and approve the NND Project costs and
14 cost schedules. My testimony will explain why the decision to abandon the
15 Project on July 31, 2017 was timely, reasonable, and prudent, and why it
16 was in the best interest of SCE&G's customers and the electric utility
17 system that serves them to continue to fund the Project up until the decision
18 to abandon was made.

19 **Q. WHAT OTHER WITNESSES ARE PRESENTING DIRECT**
20 **TESTIMONY ON BEHALF OF THE COMPANY?**

21 A. The other witnesses presenting direct testimony on behalf of the
22 Company are Ms. Iris N. Griffin, Dr. Glenn Hubbard, Mr. Bob Hevert, Ms.

1 Ellen Lapson, Dr. Joseph M. Lynch, Mr. Kyle M. Young, Mr. J. Wade
2 Richards, Mr. Kevin R. Kochems, and Mr. Allen Rooks.

3 1. Ms. Griffin is the Senior Vice President, Chief Financial
4 Officer, and Treasurer of SCANA and SCE&G. She is a CPA and will
5 testify concerning financial matters related to the Joint Petition, the
6 financial status of SCE&G and SCANA, and the financial results that
7 would likely occur under the regulatory plans proposed in the Joint
8 Petition, and if rates corresponding to those in Act 258 were adopted.

9 2. Dr. Hubbard is the Dean of the Graduate School of Business
10 at Columbia University, as well as a Professor of Economics in the
11 Department of Economics of the Faculty of Arts and Sciences, a Research
12 Associate for the National Bureau of Economic Research, and a visiting
13 scholar at the American Enterprise Institute. His work centers on
14 analyzing and evaluating issues in corporate finance, public economies,
15 industrial organization, monetary economics, and energy and natural
16 resource economics. He will testify concerning the impact of South
17 Carolina Laws Acts 258 and 287 on SCE&G, its customers, and the
18 general public interest of the State of South Carolina.

19 3. Mr. Hevert is a partner with ScottMadden, Inc., where he
20 advises energy and utility clients on a wide range of financial and
21 economic issues. He will testify concerning the cost of capital for SCE&G

1 and the returns that would be earned by SCE&G under the various
2 regulatory proposals.

3 4. Ms. Lapson is a principal with Lapson Advisory and has
4 extensive experience in the measurement and assessment of the
5 creditworthiness and financial stability of investor-owned utility
6 companies. She will testify concerning the effect on SCE&G's
7 creditworthiness and financial stability under the various regulatory
8 proposals for dealing with SCE&G's new nuclear investment and the
9 likely financial repercussions from those proposals.

10 5. Dr. Lynch is the Manager of Resource Planning at SCANA.
11 He will testify concerning the economic analyses that demonstrated that
12 continued construction of the nuclear units was in the best interest of
13 customers up until the decision by Santee Cooper to suspend construction
14 of the Project on July 31, 2017. He will also testify concerning the
15 economic analyses that were presented in prior Base Load Review Act
16 ("BLRA") proceedings that demonstrated that completing the Project was
17 in the economic best interest of SCE&G and its customers.

18 6. Mr. Young is the Manager of Nuclear Plant Demobilization
19 for SCE&G. He will testify concerning the status of the Project up to and
20 after abandonment, the abandonment activities that were undertaken after
21 July 31, 2017, and related matters. Mr. Young will also testify concerning
22 certain projects that were undertaken as part of the NND Project that are

1 not being abandoned but are being placed in service to support SCE&G's
2 ongoing utility operations.

3 7. Mr. Richards is a Senior Engineer in Transmission Planning
4 for SCE&G. He will testify concerning the transmission projects that were
5 included in the NND Project, which have been and are being placed in
6 service. He will also testify concerning the benefits of those projects to
7 SCE&G's customers.

8 8. Mr. Kochems was SCANA's Director of Nuclear Financial
9 Administration and is now the Manager of Regulatory Accounting.
10 Mr. Kochems will sponsor the schedule showing the costs of the NND
11 Project as of December 31, 2017. He will present the adjustments in those
12 cost schedules to remove costs associated with those aspects of the NND
13 Project that are being put into service and will testify concerning
14 accounting matters related to the regulatory proposals.

15 9. Mr. Rooks is the Manager of Electric Pricing and Rate
16 Administration at SCANA Services, Inc. He will explain the proposed
17 rate structures and rate adjustments under the Customer Benefits Plan and
18 the No Merger Benefits Plan and will sponsor the tariff sheets that are
19 proposed for implementing those plans. He will also discuss the proposal
20 for calculating and making the one-time cash payments to customers under
21 the Customer Benefits Plan.
22

1 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

2 A. My testimony is organized into the following sections:

3 I. Regulatory History of the Project

4 II. The Combination with Dominion Energy

5 III. The Westinghouse Bankruptcy

6 IV. The Post-Bankruptcy Evaluation of SCE&G's Options

7 V. Post-Abandonment Settlement Attempts

8 VI. The Merger Discussions and Merger Agreement

9 VII. The No Merger Benefits Plan

10 VIII. The Base Request

11 IX. Prudency Matters

12 X. Conclusion.

13 **I. REGULATORY HISTORY OF THE PROJECT**

14 **Q. PLEASE PROVIDE AN OVERVIEW OF THE REGULATORY**
15 **HISTORY OF THE PROJECT INCLUDING THE INITIAL BLRA**
16 **PROCEEDINGS CONCERNING THE PROJECT.**

17 A. As the Commission is aware, in 2005, SCE&G began to evaluate the
18 alternatives available to meet its customers' growing need for additional
19 base load capacity in the coming decades. The Company conducted this
20 evaluation in light of its aging fleet of coal generating units, volatile global
21 fossil-fuel markets and the increasingly stringent and costly environmental
22 regulations imposed on fossil-fuel generation, particularly coal generation.

1 In its evaluation, the Company sought proposals from three suppliers of
2 nuclear generation units. The resulting evaluations and the negotiation of
3 an Engineering, Procurement, and Construction Agreement (the “EPC
4 Contract”) for the Units took place over the period 2005-2008. On May 23,
5 2008, the Company signed the EPC Contract with Westinghouse and Stone
6 & Webster, which was a part of the Shaw Group (“WEC/CB&I”).

7 Later that month, on May 30, 2008, the Company filed a Combined
8 Application under the BLRA seeking a full regulatory review by the
9 Commission and ORS of the prudence of the Project and the
10 reasonableness of the EPC Contract. The cost schedule presented to the
11 Commission in 2008 also included a reasonable forecast of owner’s
12 contingency for the Project. SCE&G’s share of the total anticipated cost
13 was \$6.3 billion in future dollars. In December 2008, the Commission held
14 nearly three weeks of hearings and took evidence from 22 expert witnesses
15 about the Project, the contractors, the EPC Contract, and risks of
16 construction.

17 **Q. WHAT WAS THE RESULT OF THE 2008-2009 BLRA**
18 **PROCEEDINGS?**

19 A. These initial cost forecasts for the Units were the subject of extensive
20 discovery and review by expert witnesses for the ORS and others. On
21 March 2, 2009, the Commission issued Order No. 2009-104(A) approving
22 the capital cost schedules and associated owner’s contingencies. The South

1 Carolina Supreme Court reviewed and upheld the Commission's
2 determinations as to the need for the Units and their prudence finding that
3 "based on the overwhelming amount of evidence in the record, the
4 Commission's determination that SCE&G considered all forms of viable
5 energy generation, and concluded that nuclear energy was the least costly
6 alternative source, is supported by substantial evidence." *Friends of Earth*
7 *v. Pub. Serv. Comm'n*, 387 S.C. 360, 369, 692 S.E.2d 910, 915 (2010). In a
8 related case, *South Carolina Energy Users Comm. v. South Carolina Pub.*
9 *Serv. Comm'n*, 388 S.C. 486, 697 S.E.2d 587 (2010), the Court ruled that
10 costs which were not itemized to specific expense items—specifically
11 owner's contingency costs—could not be included in the Commission-
12 approved cost schedules for the Units. In that opinion, the Court indicated
13 that the BLRA allowed the Company to return to the Commission to seek
14 approval of additional expenditures as circumstances required.

15 SCE&G had included in its original cost projections for the Project
16 contingencies to reflect the risk that current cost projections would not be
17 met. The Company had planned to update those contingency amounts as the
18 risks of the Project evolved. This would have allowed the Commission to
19 evaluate the economics of the Project in light of current assessments and
20 quantifications of risk. The *Energy Users* opinion of 2010 eliminated that
21 possibility. From that point forward, only itemized and clearly foreseeable

1 costs could be included in the BLRA update. Risk contingencies were
2 disallowed.

3 **Q. PLEASE DESCRIBE THE UPDATES THAT HAVE OCCURRED TO**
4 **THE COST AND CONSTRUCTION SCHEDULES FOR THE UNITS**
5 **SINCE ORDER NO. 2009-104(A) WAS ISSUED.**

6 A. Since Order No. 2009-104(A) was issued in March 2009, SCE&G has
7 appeared before the Commission five times to update the cost and
8 construction schedules for the Units.

- 9 1. In 2009, the Commission updated the construction schedule
10 and associated cash flow forecasts to reflect WEC/CB&I's
11 issuance of a site-specific integrated construction schedule for
12 the Project. The EPC Contract required WEC/CB&I to begin
13 preparing such a schedule as soon as it was signed. SCE&G
14 presented that schedule to the Commission for review as soon
15 as practical after it was accepted by SCE&G. In the 2009
16 update filing, the timing of cash flows were adjusted, but the
17 total forecasted cost for the Units in 2007 dollars (\$4.5 billion)
18 did not change. However, escalation calculations increased the
19 cost of the Units from \$6.3 billion to \$6.9 billion. After
20 discovery and the pre-filing of testimony, ORS and the South
21 Carolina Energy Users Committee signed a settlement

1 agreement with SCE&G approving the update. No party
2 appealed the resulting order.

3 2. In 2010, consistent with the decision of the South Carolina
4 Supreme Court in *South Carolina Energy Users Comm. v.*
5 *South Carolina Pub. Serv. Comm'n*, 388 S.C. 486, 697 S.E.2d
6 587 (2010), the Company removed the owner's contingency
7 costs from the prior cost forecasts. In addition, in the 2010
8 update proceeding, the Company identified and itemized
9 approximately \$174 million in costs related to specific cost
10 categories for the Project that it would have accounted for
11 using owner's contingency costs before the court decision. As
12 a result, in Order No. 2011-345, the Commission approved cost
13 schedules for the Project that reduced the approved cost
14 estimate in future dollars from \$6.9 billion to \$5.8 billion
15 (\$4.3 billion in 2007 dollars), including an approximately \$800
16 million reduction in forecasted escalation. After discovery and
17 the pre-filing of testimony, ORS and SCE&G signed a
18 settlement agreement approving the update. No party appealed
19 the resulting order.

20 3. In 2012, the Commission updated the capital cost forecasts and
21 construction schedule. The cost forecasts were based on a

1 settlement between SCE&G and WEC/CB&I for cost increases
2 associated with:

- 3 a. The delay in the issuance of the Combined Operating
4 License (“COL”) by the Nuclear Regulatory
5 Commission (“NRC”);
- 6 b. WEC’s redesign of the AP1000 Shield Building;
- 7 c. The redesign by WEC/CB&I of certain structural
8 modules to be used in the Units; and
- 9 d. The discovery of unanticipated rock conditions in the
10 Unit 2 Nuclear Island (“NI”) foundation area.

11 The Commission also updated the anticipated schedule of
12 Owner’s cost to reflect more detailed operations and
13 maintenance planning; new safety standards issued after the
14 Fukushima event; and other matters. The 2012 update also
15 involved several specific EPC Contract change orders. It
16 increased the anticipated cost for the Units by approximately
17 \$300 million in 2007 dollars, but reductions in escalation and
18 interest costs fully offset those increases and the total cost in
19 future dollars remained approximately \$5.8 billion (\$4.5 billion
20 in 2007 dollars). The Commission adopted these new
21 schedules in Order No. 2012-884. The South Carolina

1 Supreme Court affirmed that order in *S.C. Energy Users*
2 *Comm. v. S.C. Elec. & Gas*, 410 S.C. 348, 764 S.E.2d 913
3 (2014).

4 4. In 2015, the Commission updated the construction and cost
5 schedules to reflect new completion dates for the Units of June
6 2019, and June 2020, and to reflect new cost forecasts. The
7 updated schedules were the result of a newly-baselined
8 construction and cost schedule that SCE&G had directed the
9 Consortium to compile to more accurately reflect the schedule
10 delays and productivity issues that were challenging the
11 Project. The Consortium's newly revised schedule was
12 presented to the Commission after a detailed review by
13 SCE&G of the assumptions and methodologies on which it
14 was based but with the express understanding as indicated by
15 SCE&G's testimony in this document that the Consortium
16 would be required to substantially improve productivity and
17 mitigate delays to achieve the commitments the Consortium
18 was making under those schedules. The resulting update
19 increased the construction cost estimate for the Project to \$6.8
20 billion in future dollars (\$5.2 billion in 2007 dollars). After
21 discovery and the pre-filing of testimony, ORS and the South
22 Carolina Energy Users Committee signed a settlement

1 agreement with SCE&G approving the update. No party
2 appealed the order approving the updated cost and construction
3 schedules.

4 5. In 2016, the Commission approved SCE&G's request for a
5 new construction milestone schedule tied to new substantial
6 completion dates for the Units of August 31, 2019, and
7 August 31, 2020, and to update the forecasted capital costs of
8 the Units to approximately \$7.7 billion in future dollars (\$6.8
9 billion in 2007 dollars) including the cost associated with the
10 fixed price option. After discovery and the pre-filing of
11 testimony, ORS, the South Carolina Energy Users Committee
12 and other parties signed a settlement agreement with SCE&G
13 approving the update. No party appealed the resulting order.

14 **II. THE COMBINATION WITH DOMINION ENERGY**

15 **Q. WHAT IS SCE&G'S POSITION CONCERNING THE**
16 **COMBINATION WITH DOMINION ENERGY?**

17 A. SCE&G supports the combination with Dominion Energy
18 wholeheartedly because it provides important benefits to SCE&G's
19 customers while resolving the financial and regulatory issues that have
20 arisen following the abandonment of the NND Project. SCE&G's primary
21 duty is to provide safe, reliable, and efficient service to its customers. It

1 will be able to continue to do so as a subsidiary of Dominion Energy.
2 Without the combination, SCE&G's ability to serve its customers
3 effectively over the short-term, or the long-term, could be in jeopardy, and
4 customers would not receive the benefits provided under the Customer
5 Benefits Plan.

6 In terms of values and operating culture, Dominion Energy is a
7 positive fit for South Carolina. Dominion Energy invests in the people,
8 systems and infrastructure needed to sustain excellent service and efficient
9 operations, and takes a long-term view of the utility business. SCE&G has
10 thousands of employees who rely on the Company for the tools, equipment,
11 and training they need to work safely and efficiently. Dominion Energy
12 has an excellent record for operating utility systems safely, reliably, and
13 efficiently. Dominion Energy utilities support the communities they serve
14 and actively promote economic development.

15 In the immediate context, Dominion Energy has the financial
16 strength to help SCE&G and its customers recover from the disruption that
17 has occurred as a result of the abandonment of the NND Project. In the
18 long-term, it will provide customers with a stable, dependable and high
19 quality utility service.
20
21
22

1 **Q. WHAT ARE THE CUSTOMER BENEFITS MADE POSSIBLE BY**
2 **THE DOMINION ENERGY COMBINATION?**

3 A. **Cash Payments.** Under the Customer Benefits Plan, SCE&G's
4 retail electric customers will receive a one-time rate credit totaling \$1.3
5 billion. These payments will be made within 90 days of the combination
6 closing, as Mr. Farrell explains in his testimony. Residential customers will
7 receive approximately \$628 million from that distribution, with the average
8 residential customer receiving \$1,000. Industrial customers will receive
9 approximately \$300 million, and commercial customers will receive the
10 balance. Within those rate categories, the State of South Carolina will
11 receive approximately \$36.6 million through various agencies and
12 institutions of higher learning; municipalities and other local government
13 entities will receive approximately \$22.6 million; and churches will receive
14 approximately \$2.6 million.

15 **Foregone Recovery of Capital Items.** As a result of the
16 combination with Dominion Energy, SCE&G will forego recovery of \$1.4
17 billion of NND Project Costs, which includes the prior impairments taken
18 by SCE&G. In addition, SCE&G will forego recovery of \$361 million in
19 regulatory assets related to the NND Project. Finally, SCE&G will write
20 off the \$180 million purchase price of the 540 MW combined cycle natural
21 gas generation facility that SCE&G has acquired to replace part of the
22 anticipated nuclear generation.

1 **Bill Reductions.** Dominion Energy will provide SCE&G's
2 customers with a bill reduction which is estimated to total approximately
3 7%. That reduction will be comprised of a refund credit which will reduce
4 bills by approximately 3.5% as compared to its annualized 2017 retail
5 electric bills, and a savings from the Tax Cuts and Jobs Act of 2017. The
6 amount of estimated tax savings customers will receive was initially
7 estimated at 1.5%, but that estimate has been revised upwards to 3.5%.
8 Any additional tax savings that are realized will be passed through to
9 customers when received. The combined 7% bill reduction will reduce a
10 typical residential customer's bill by approximately \$22 per month.

11 Dominion Energy's shareholders will absorb the financial impacts,
12 net of tax reductions, of these write-offs and bill reductions. Dominion
13 Energy's plan will amortize the balance of the NND Project capital costs
14 over 20 years.

15 **Q. STANDING ALONE, COULD SCANA AND SCE&G PROVIDE THE**
16 **SAME BENEFITS AS DOMINION ENERGY IS OFFERING?**

17 A. As a standalone company, SCANA and SCE&G would not be able
18 to provide the benefits Dominion Energy is offering without incurring
19 undue financial risk.

20 **Q. WHY IS THAT THE CASE?**

21 A. If SCE&G were to attempt to provide benefits comparable to those
22 that Dominion Energy can offer through the combination agreement, the

1 resulting reduction in revenues and potential impairment of assets could
2 cause SCE&G an acute liquidity and creditworthiness crisis. There would
3 be a significant risk that SCE&G would not be able to access the cash
4 needed to support ongoing utility service to its gas and electric customers.

5 At best, SCE&G would experience an increase in the costs of issuing
6 debt and other capital. SCE&G typically invests approximately \$500
7 million a year in new capital to maintain the safety, reliability, and
8 efficiency of its utility systems, and to meet growing customer demands.
9 Even if the financing needed to sustain this investment could be found, it
10 could be very expensive. SCE&G's capital costs—and ultimately the rates
11 it charges to customers—could rise dramatically and the increased costs
12 remain embedded in SCE&G's capital structure for decades.

13 In his testimony, Mr. Hevert shows that as a result of the current lack
14 of regulatory and political certainty related to its revenues and finances,
15 SCE&G's cost of equity has risen by 50 basis points from the currently
16 allowed 10.25% to approximately 10.75%. This dramatic rise in SCE&G's
17 cost of capital does not take into consideration the additional stress that
18 seeking to provide the Customer Benefits Plan would impose if provided on
19 a stand-alone basis.

20 For these reasons, it would be unduly risky, if not impractical, for
21 SCE&G or SCANA to provide benefits comparable to those that Dominion
22 Energy is offering through the combination.

1 **Q. WHAT TERMS DOES THE COMBINATION AGREEMENT**
2 **CONTAIN TO PROTECT EMPLOYEE AND COMMUNITY**
3 **INTERESTS?**

4 A. Dominion Energy has committed to maintain the corporate
5 headquarters for SCE&G in Cayce, South Carolina. The compensation of
6 all SCANA employees will be protected until January 1, 2020. SCANA
7 will increase its charitable contributions by \$1 million per year.

8 **III. THE WESTINGHOUSE BANKRUPTCY**

9 **Q. WHAT EVENTS LED TO THE COMBINATION AGREEMENT**
10 **WITH DOMINION ENERGY?**

11 A. The events that led to the combination agreement with Dominion
12 Energy were set in motion on March 29, 2017, when Westinghouse filed
13 for bankruptcy. At that time, Westinghouse announced that it would use
14 the bankruptcy code to invalidate the price and performance guarantees that
15 SCE&G and Santee Cooper had built into the construction contract for the
16 Units through the EPC Contract and the Amendment. In fact,
17 Westinghouse's stated goal in filing for bankruptcy was to renounce and
18 invalidate the obligations of Westinghouse that SCE&G and Santee Cooper
19 had negotiated into the EPC Contract to protect their customers, along with
20 similar price guarantees that Westinghouse had granted Southern Company
21 and the other owners of the project to construct two AP1000 Units at the
22 Plant Vogtle site in Waynesville, Georgia (the "Vogtle Project"). This was

1 a terrible blow to the Project in light of the importance of the EPC Contract
2 to SCE&G and its customers.

3 **Q. PLEASE EXPLAIN THE IMPORTANCE OF THE EPC CONTRACT**
4 **TO SCE&G AND ITS CUSTOMERS.**

5 A. Since the beginning of the Project, SCE&G sought to protect itself
6 and its customers from price risk by incorporating fixed and firm pricing
7 into the terms of the EPC Contract. In 2008, when the EPC Contract was
8 signed, approximately 54% of the EPC costs were set as either fixed or firm
9 prices (*i.e.*, set at a stated amount either without adjustment or subject only
10 to specified escalation adjustments).

11 The Commission approved the pricing terms of the EPC Contract in
12 Order No. 2009-104(A) and included the following discussion of them in
13 that order:

14 [The] fixed and firm categories contain the major equipment and
15 components that are to be used in the Units, and the majority of
16 nuclear-specific engineering and other services that will be provided
17 by Westinghouse as the nuclear systems provider. [The contractors
18 were] able to provide fixed or firm pricing not only on the majority
19 of the total price, but also on the majority of those elements of the
20 equipment and services that were most uniquely nuclear in nature,
21 and so subject to potential price risks that are unique as compared to
22 more standard construction cost items. . . . For these reasons, the
23 Commission finds that the EPC Contract contains reasonable and
24 prudent pricing provisions, as well as reasonable assurances of price
25 certainty for a project of this scope.

26 As the Project moved forward and prices became more certain,
27 SCE&G was able to negotiate an amendment to extend fixed or firm

1 pricing to an additional group of EPC costs. That occurred in 2010, and the
2 associated costs were affirmed by this Commission in Order No. 2011-345.

3 Ultimately, in October 2015, SCE&G and Santee Cooper negotiated
4 a further amendment to the EPC Contract, including an option to make
5 substantially all remaining EPC costs subject to fixed pricing (the
6 “Amendment” and the “Fixed Price Option”). The Amendment also
7 provided for a transition period during which payments would be made
8 under an interim payment schedule. During the transition period, the
9 parties—by agreement or, failing their agreement, by order from the
10 Dispute Resolution Board (“DRB”)—were to develop a detailed milestone
11 payment schedule. The DRB was created as part of the Amendment. The
12 milestone payment schedule—in conjunction with other provisions of the
13 Amendment—shifted additional risk to Westinghouse to achieve the
14 Project schedule and to improve construction efficiencies.

15 **Q. DID THE AMENDMENT CHANGE LIQUIDATED DAMAGES AND**
16 **PERFORMANCE INCENTIVES?**

17 A. The Amendment also increased liquidated damages four-fold and
18 put Westinghouse at risk for a total of approximately \$1 billion in
19 liquidated damages and lost performance incentives if it failed to complete
20 the Project in a timely manner. (This is a 100% number representing both
21 SCE&G’s and Santee Cooper’s shares of the amounts.)
22

1 **Q. WHAT DID THE AMENDMENT MEAN AS A PACKAGE?**

2 A. As a package, the Amendment provided Westinghouse with a strong
3 incentive to improve construction productivity and to complete the Project
4 in a timely and efficient manner.

5 Productivity of the construction labor on site was a key concern. As
6 the Commission found in Order No. 2015-661, Westinghouse and its
7 Consortium partner were “not achieving either the original or the updated
8 [as of 2015] productivity assumptions” and that “achieving these factors
9 [was] important to meeting both the cost and construction schedules” for
10 the Project. The Amendment shifted substantial productivity risk to
11 Westinghouse. The fact that Westinghouse agreed to put itself at risk for
12 cost overruns and schedule compliance in the Amendment indicated to us
13 that Westinghouse was serious about curing the problems in the Project and
14 completing the Project successfully.

15 **Q. WHAT REGULATORY ACTION DID SCE&G TAKE?**

16 A. On May 26, 2016, SCE&G filed a petition under the BLRA seeking
17 Commission review and approval of the Amendment and the associated
18 cost schedules and construction schedules and the exercise of the Fixed
19 Priced Option (the “2016 Update Proceeding”).
20
21
22

1 **Q. WHILE THIS PROCEEDING WAS PENDING, DID ORS AND**
2 **OTHER PARTIES ALSO SEEK ASSURANCES DIRECTLY FROM**
3 **WESTINGHOUSE THAT IT WAS COMMITTED TO**
4 **COMPLETING THE PROJECT?**

5 A. Yes. After SCE&G had pre-filed its direct testimony in the 2016
6 Update Proceeding and while settlement negotiations were ongoing, ORS
7 and other parties sought direct assurances from Westinghouse's senior
8 leadership that Westinghouse was fully committed to completing the
9 Project successfully. Jeff Benjamin, the Westinghouse Senior Vice
10 President in charge of new nuclear construction globally, gave those
11 assurances at a face-to-face meeting that was held at the Jenkinsville site on
12 August 5, 2016. In addition to Mr. Benjamin, Westinghouse was
13 represented at that meeting by Carl Churchman, Consortium VP and
14 Project Director for the NND Project, and Westinghouse legal counsel.
15 ORS was represented at that meeting by Mr. C. Dukes Scott, its Executive
16 Director, and his legal counsel; Ms. Allyn Powell, ORS's Manager of
17 Nuclear Programs; and ORS's outside nuclear construction expert for this
18 Project, Mr. Gary Jones. Mr. Scott Elliott, Esquire, attended representing
19 the South Carolina Energy Users Committee. Mr. Mike Couick, along with
20 legal counsel represented the Electrical Cooperatives of South Carolina.
21 Mr. John Tiencken, represented Central Electric Cooperatives. The Fluor

1 Corporation was represented by Mr. Gary W. Flowers, its Executive Vice
2 President in the Office of Chairman and legal counsel.

3 SCE&G suggested that it would be helpful for ORS to provide a list
4 of questions in advance so that Westinghouse and Fluor could prepare their
5 responses. A copy of those questions is attached at *Exhibit __ (JEA-1)*.

6 **Q. WHAT TOOK PLACE AT THE MEETING?**

7 A. At the meeting, ORS's Executive Director, Mr. Scott, subjected
8 Westinghouse's senior leadership to sharp questioning concerning
9 Westinghouse's commitment to complete the Project and to improve the
10 productivity factors and schedule compliance issues that were of great
11 concern to ORS and SCE&G at the time. As the senior Westinghouse
12 official present, Mr. Benjamin, reaffirmed the commitment to successfully
13 completing the Project. Other Westinghouse personnel explained
14 Westinghouse's plans to increase labor productivity and schedule
15 compliance. Mr. Benjamin explained that the company was actively
16 marketing its AP1000 Advanced Passive Safety reactor technology
17 globally. At the time, Westinghouse was publicly reported to be actively
18 negotiating to construct multiple AP1000 units. Mr. Benjamin reiterated
19 Westinghouse's strategy. He assured those present at the meeting that
20 successfully completing this Project and its sister project in Georgia was
21 critically important to Westinghouse's core business strategy.
22

1 **Q. WHAT HAPPENED AFTER THE MEETING?**

2 A. After the meeting, discussions began in earnest on a settlement
3 agreement. Following several weeks of negotiations, the parties reached a
4 final agreement on September 1, 2016. All the parties who were present at
5 the August meeting with Westinghouse—including ORS, the South
6 Carolina Energy Users, and the Electric Cooperatives of South Carolina—
7 signed the settlement agreement and agreed that in light of the
8 commitments made by Westinghouse, and the terms of the settlement
9 agreement itself, the Project should go forward under the terms of the
10 Amendment. ORS then submitted the settlement agreement to the
11 Commission in resolution of all issues raised in that docket. It was
12 accepted by the Commission in Order No. 2016-794 and is attached as
13 Exhibit A to that order.

14 **Q. ON WHAT FACTUAL BASIS WAS APPROVAL GRANTED TO**
15 **SCE&G’S PETITION IN THE 2016 UPDATE PROCEEDINGS?**

16 A. In its testimony in the 2016 update proceeding, SCE&G showed that
17 the projected total cost of the NND Project had increased by 21% in the
18 eight years since it began. SCE&G provided testimony and economic
19 analyses from Dr. Lynch showing that completing the Project continued to
20 be in customers’ best interests, even at the current forecasted price and even
21 in consideration of the extremely low natural gas prices of the current
22 period. Specifically, Dr. Lynch showed that, assuming the price of the

1 Project as projected in the Fixed Price Option, completing the Units would
2 save customers an average of between \$172 million and \$586 million per
3 year over a 40-year planning horizon, compared to the cost of replacing the
4 Units with other types of energy generation. The 2016 study showed that
5 customers would benefit from completing the Units unless costs increased
6 by \$3.8 billion.

7 **Q. HOW DID SCE&G ADDRESS THE RISK OF FUTURE CHANGE**
8 **ORDERS INCREASING THE PRICE?**

9 A. During the negotiation of the Amendment, SCE&G insisted on terms
10 that redefined and greatly limited what could be claimed as a change order
11 going forward. SCE&G also insisted on the creation of the DRB to
12 arbitrate construction disputes quickly and decisively, so as to prevent
13 Westinghouse from filing a lawsuit and walking off the job prior to
14 completion if its change order claims were not approved.

15 In reaching a settlement agreement with SCE&G in the 2016 Update
16 Proceeding, ORS insisted that SCE&G bear the cost of future change order
17 requests that were not specifically sanctioned under the new and more
18 restrictive terms that had been negotiated in the Amendment. SCE&G
19 agreed, and that became a key provision of the settlement agreement in the
20 2016 update proceeding.

21 ORS and SCE&G were both trying to ensure that Westinghouse bore
22 as completely as possible the risk it had accepted for future cost increases

1 under the Fixed Price option. So long as Westinghouse honored its Fixed
2 Price commitments, SCE&G and its customers were largely protected from
3 the risks of EPC Contract price increases.

4 **Q. WAS IT REASONABLE TO ASSUME THAT WESTINGHOUSE**
5 **WOULD MEET ITS OBLIGATIONS?**

6 A. Yes. Westinghouse was a 150-year-old corporation that was an icon
7 of the electric industry. It was a principal supplier of nuclear fuel and
8 equipment to the nuclear power industry globally. Its core non-new nuclear
9 construction businesses were generally understood to be quite profitable,
10 and the subsequent bankruptcy filing showed that those businesses were in
11 fact profitable. Westinghouse had made it clear that it was committed to
12 completing these units, which was of critical importance to its global
13 strategy of marketing AP1000 units. In addition, Westinghouse's parent
14 company, Toshiba Corporation, was a 140-year-old corporation that was a
15 global technology leader with a market capitalization in October of 2015 of
16 over \$12 billion and was investment grade rated at the time (Baa2 -
17 Moody's, BBB - Standard and Poor's).

18 **Q. WERE THERE OTHER REASONS IN 2016 TO BELIEVE THAT**
19 **THE PROJECT COULD BE SUCCESSFULLY COMPLETED?**

20 A. As Mr. Young will testify in more detail, and as the Commission
21 found in Order No. 2015-661, at page 21, by late 2016 "construction of the

1 Units [had] proceeded to the point where many of the initial risks and
2 challenges of new nuclear construction have been overcome.”

3 As the Commission recognized in Order No. 2015-661, the most
4 pressing challenge Westinghouse faced was the need to improve on-site
5 construction productivity so that plant buildings and structures could be
6 completed, and so that equipment could be installed and tested in a timely
7 and efficient manner. In fact, as the Commission also found in Order No.
8 2015-661, SCE&G began in May 2015 to withhold portions of payments it
9 believed were “related to the delay and inefficient performance” by
10 Westinghouse. Order No. 2015-661, p. 33. SCE&G did so to put pressure
11 on Westinghouse to improve productivity. In the end, millions of dollars
12 were withheld for that reason. As SCE&G’s testimony indicated in Docket
13 No. 2016-223-E, a principal motivation for the restructuring of the
14 Consortium and the negotiations leading up to the Amendment was the
15 perception by Westinghouse and its then-partner Chicago Bridge & Iron
16 that SCE&G’s actions were pushing the Project toward major litigation.

17 **Q. DID THE AMENDMENT ADDRESS SCE&G’S CONCERNS**
18 **ABOUT PRODUCTIVITY?**

19 A. Yes. The Amendment resolved substantially all outstanding disputes
20 between the parties, created the DRB to allow for the more efficient
21 resolution of future disputes interfering with the Project, and, most
22 importantly, shifted essentially all EPC Contract price risk to

1 Westinghouse. As a result of the Amendment, Westinghouse, not SCE&G
2 or its ratepayers, would bear the risk of poor productivity. In addition, the
3 Amendment made it possible to eliminate the Consortium structure, which
4 had become a major obstacle to efficiency by 2015.

5 The Amendment made Westinghouse solely responsible for
6 managing the Project and allowed Westinghouse to select a new
7 construction subcontractor. Westinghouse selected Fluor, which had
8 extensive experience managing major nuclear and electric generation
9 projects, and other major construction projects globally. SCE&G had an
10 extensive, direct, and very positive experience with Fluor going back
11 decades. Immediately after being selected, Fluor and Westinghouse, along
12 with representatives from SCE&G, Santee Cooper, and Southern Nuclear
13 Company, began an intensive review of the work processes that were
14 causing poor productivity.

15 **Q. WHEN DID CONCERNS ABOUT WESTINGHOUSE'S AND**
16 **TOSHIBA'S ACCOUNTING ISSUES ARISE?**

17 A. In July 2015, Toshiba Corporation announced that it had overstated
18 profits by \$1.2 billion through accounting irregularities at some of its
19 operating companies. Those irregularities did not involve Westinghouse's
20 new nuclear construction activities.

21 But, on December 27, 2016, Toshiba announced that it had
22 discovered a new set of accounting irregularities that would require

1 reassessing the probable losses in completing Westinghouse's two new
2 nuclear projects in the United States: Vogtle and V.C. Summer. It was
3 apparent that the probable losses from these projects had not been fully
4 quantified in Toshiba's financial statements.

5 **Q. WAS THE PUBLIC AWARE OF THESE PROBLEMS RELATED**
6 **TO THE NUCLEAR PROJECTS BEFORE DECEMBER 2016?**

7 A. The first public disclosure that Westinghouse had not fully
8 quantified its nuclear construction losses came in December 2016. SCANA
9 and SCE&G were not aware of these issues prior to December 2016.

10 **Q. WERE THESE PROBLEMS NOT EVIDENT ON TOSHIBA'S OR**
11 **WESTINGHOUSE'S PUBLICLY REPORTED FINANCIAL**
12 **STATEMENTS?**

13 A. Westinghouse's financial results were consolidated with Toshiba's
14 and not available to the public. Toshiba's financial statements had been
15 audited by a major, global accounting firm. That firm had represented to
16 the public that Toshiba's accounting controls were effective and that the
17 financial results of the firm's operations—including Westinghouse's—
18 were presented fairly. There was no reason for us to suspect that
19 Westinghouse had under-reported its anticipated nuclear losses to Toshiba.

20

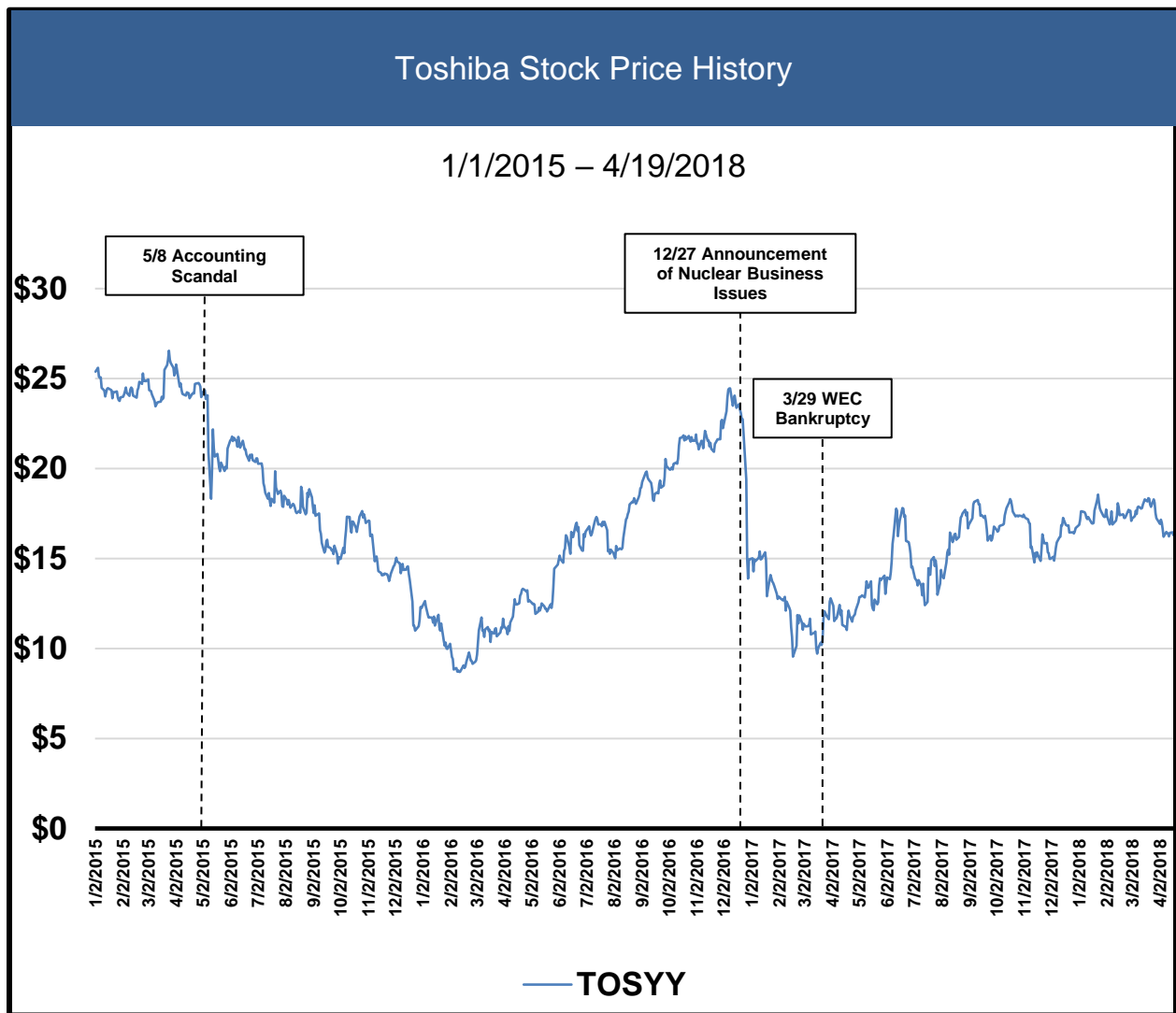
21

1 **Q. HOW DID THE GLOBAL FINANCIAL MARKETS RESPOND TO**
2 **THE DECEMBER 2016 ANNOUNCEMENT?**

3 A. Over most of 2016, Toshiba's shares had been on a steady upward
4 climb, recovering from the losses resulting from the 2015 accounting
5 issues. Toshiba's share price had almost reached pre-2015 levels by early
6 December 2016. But between early December 2016 and mid-February
7 2017, Toshiba shares lost approximately 60% of their value. This sudden
8 reversal in share prices is evidence that the public was not aware of the
9 accounting problems related to Westinghouse's nuclear projects before this
10 time and, therefore, those problems were not factored into Toshiba's share
11 prices at the beginning of December 2016. Chart A shows Toshiba's
12 publicly reported share prices during this period:

13 [Chart begins on following page]

1

Chart A2
3

4 **Q. WHAT ACTION DID TOSHIBA AND WESTINGHOUSE TAKE**
5 **FOLLOWING THE DECEMBER 2016 ANNOUNCEMENT?**

6 A. When the magnitude of Westinghouse's new nuclear construction
7 obligations was disclosed, Toshiba chose to bankrupt Westinghouse and
8 shift the costs that Westinghouse had not accurately reported to Toshiba
9 onto Westinghouse's customers, including SCE&G, Santee Cooper, and the

1 owners of the Vogtle project. This set in motion the events that resulted in
2 the need to abandon the NND Project and ultimately led to SCANA's
3 decision to enter a combination agreement with Dominion Energy to
4 resolve the resulting financial and regulatory challenges in a manner that is
5 beneficial to SCE&G's customers.

6 **IV. THE POST-BANKRUPTCY EVALUATION OF SCE&G'S**
7 **OPTIONS**

8 **Q. WHAT DID SCE&G DO IN RESPONSE TO THE WESTINGHOUSE**
9 **BANKRUPTCY FILING?**

10 A. As Mr. Young will testify, in response to Westinghouse's
11 bankruptcy filing, SCE&G and Santee Cooper worked with Southern
12 Nuclear Company to perform an intensive review of the costs and schedule
13 for completing the Project. Westinghouse made available its detailed cost
14 and schedule data, as well as the terms of its commercial agreements with
15 vendors and subcontractors. Westinghouse had previously kept this
16 information confidential to protect its commercial interests in bidding on
17 future nuclear construction projects. SCE&G hired construction costing
18 and scheduling experts and obtained expert assistance from Fluor to assess
19 the potential costs and schedules for completing the Project. This
20 assessment was done on an accelerated basis, but nonetheless required a
21 number of months to complete.
22

1 **Q. HOW DID THE PROJECT GO FORWARD DURING THIS**
2 **EVALUATION PERIOD?**

3 A. During the evaluation period, the workforce and supply chain for the
4 Project were kept in place under an Interim Assessment Agreement
5 (“IAA”) with Westinghouse. The IAA provided for SCE&G and Santee
6 Cooper to fund construction on a weekly basis while completing their
7 assessment of options. Mr. Kochems will also discuss the IAA in more
8 detail.

9 **Q. WHY WAS IT IMPORTANT TO CONTINUE CONSTRUCTION ON**
10 **THE PROJECT DURING THIS TIME?**

11 A. As Mr. Young will testify, had SCE&G suspended the Project while
12 the assessment was being performed, construction crews would have been
13 demobilized, workers would have found other employment, subcontractors
14 would have left the site, and off-site vendors and fabricators would have
15 taken on other work. If this had been allowed to happen, it would have
16 been very slow and expensive to restart the Project later.

17 **Q. WAS THERE A REASONABLE POSSIBILITY THAT THE**
18 **PROJECT WOULD GO FORWARD AFTER THE BANKRUPTCY?**

19 A. The cost and schedule data that Westinghouse provided to us at the
20 time of its bankruptcy filing indicated that SCE&G and Santee Cooper
21 could complete the Project themselves for an additional cost that was
22 roughly equal to the damages that Toshiba was expected to pay for

1 breaching the EPC Contract. If that had been correct, completion of the
2 Units would have cost our customers roughly the same as the amount that
3 was approved in the 2016 Update Proceeding. The benefits to continuing
4 the Project would have been roughly the same as Dr. Lynch's calculation in
5 the study he presented in that proceeding.

6 However, before we could make a decision to continue the Project,
7 we needed to be sure that the costs and schedule information provided by
8 Westinghouse were reliable. We also needed to evaluate the magnitude of
9 risks that SCE&G and Santee Cooper would assume if the Project went
10 forward as an owner-directed project.

11 It was not until SCE&G and Santee Cooper had completed their
12 independent review of the cost and schedule data that it became clear that it
13 was not likely that the Project could be completed for the cost
14 Westinghouse had stated. Mr. Kochems and Mr. Young participated in the
15 evaluation process and will testify in more detail concerning it. But after
16 several months of work it became clear that the economics of the Project
17 needed to be modeled using a higher estimated cost to complete than
18 Westinghouse had provided.

19 Having prepared a more realistic estimate to complete the Project,
20 SCE&G evaluated the cost to customers of completing one or both Units
21 compared to the cost of abandoning them and replacing them with other
22 types of generation. Dr. Lynch was involved in preparing these economic

1 analyses, and he will testify in more detail concerning them. As he
2 testified, when these analyses were initially run, they indicated that
3 customers could benefit—over a 40-year planning horizon—from
4 completing Unit 2. During this time, the NND team was actively
5 negotiating and pricing potential commercial agreements with
6 Westinghouse, Fluor, and other vendors for continuing the Project. While
7 the purely economic analysis showed that customers might well benefit
8 from completion of the Project, there were important construction,
9 financial, regulatory, and other risks associated with that option that had not
10 yet been fully assessed. SCE&G’s leadership team had not completed that
11 assessment when circumstances intervened.

12 **Q. WHAT CIRCUMSTANCES INTERVENED?**

13 A. In early July 2017, Santee Cooper’s executive leadership indicated
14 to SCE&G that they were likely to recommend to their board that Santee
15 Cooper suspend all support for the Project. SCE&G then undertook to
16 consider the economics and risks of completing one Unit as sole owner. In
17 light of the risks involved, SCE&G’s management determined it would not
18 be prudent to proceed with construction as a 100% owner of one Unit with
19 no co-owner to share costs or risks. We considered the challenge in
20 financing the Unit as a sole owner, the impacts on rates to customers from
21 building a single Unit as a sole owner, and the risk of proceeding with
22 construction without a fixed price agreement. At that point, SCE&G began

1 preparing its response to what we understood might be the decision by
2 Santee Cooper's Board when it met to consider the matter. On July 31,
3 2017, Santee Cooper's Board of Directors met and voted to immediately
4 begin taking those actions necessary to wind-down and suspend
5 construction of the NND Project, and to take whatever steps it could to
6 immediately reduce its NND Project expenditure and personnel costs.
7 Santee Cooper's Board of Directors also gave its authorization to
8 unilaterally terminate Santee Cooper's involvement in the NND Project.
9 Later, on July 31, 2017, having received word of Santee Cooper's Board's
10 vote, SCE&G's Board of Directors made the decision to abandon the
11 Project. At that time, SCE&G instructed Westinghouse and Fluor to
12 demobilize crews on site and to minimize expenses. Mr. Young will testify
13 as to the specifics of the ensuing work to place the site in a safe and stable
14 condition and to close out open permits.

15 **Q. WHAT DECISION DID THE OWNERS OF THE VOGTLE**
16 **PROJECT MAKE?**

17 A. The Vogtle Project is owned by the Southern Nuclear Company;
18 Oglethorpe Power Corporation; the City of Dalton, Georgia; and the
19 Municipal Electric Authority of Georgia. As Mr. Young will testify, at the
20 time of the Westinghouse bankruptcy, the Vogtle project was at roughly the
21 same point of the construction plan as SCE&G's NND Project, and was
22 experiencing similar issues. The Boards of Directors of all four owners

1 decided to continue construction of both units at the Vogtle site, conditional
2 upon a favorable ruling by the Georgia Public Service Commission
3 concerning Southern Nuclear Company's decision to continue the project.
4 By order dated December 21, 2017, entered in Docket No. 29849, the
5 Georgia Public Service Commission granted approval to continue the
6 project with certain limitations on Southern Nuclear Company's ability to
7 recover costs.

8 **V. POST-ABANDONMENT SETTLEMENT ATTEMPTS**

9 **Q. WHAT REGULATORY ACTION DID SCE&G TAKE?**

10 A. On August 1, 2017, SCE&G filed a petition in Docket No. 2017-
11 244-E, asking the Commission to review the rate and regulatory matters
12 raised by its decision to abandon the NND Project. In making that filing,
13 SCE&G publicly stated its intention to work with ORS and all interested
14 parties to achieve a settlement that would be in the best interest of all
15 parties and would include a large component of rate mitigation for
16 customers.

17 However, no settlement negotiations took place. On August 9, 2017,
18 ORS moved to dismiss that petition, arguing that the Governor and the
19 General Assembly should be allowed to undertake a review of the matter
20 before the petition was heard. That same day, James "Jay" H. Lucas, the
21 Speaker of the House of Representatives, filed a petition to intervene in the
22 docket and indicated his support of ORS's Motion to Dismiss. At that time,

1 SCE&G came under pressure from the Governor, legislative leaders, and
2 others to withdraw the August 1, 2017 petition in deference to the
3 legislative review of these matters.

4 By letter dated August 15, 2017, SCE&G withdrew its petition as
5 requested. Since that time, both the South Carolina House of
6 Representatives and the South Carolina Senate have held hearings on these
7 matters, and in June 2018 have enacted related legislation.

8 On September 26, 2017, ORS filed a petition in Docket No. 2017-
9 305-E seeking an immediate order from the Commission —without
10 hearing— reducing SCE&G’s rates by \$445 million annually (which would
11 be \$413 million, net of rates related to transmission projects) and
12 eliminating all revised rate recovery associated with the NND Project. As
13 we indicated in our filings in that docket, granting such a request could lead
14 to the rapid economic demise of SCE&G and SCANA.

15 **Q. WHAT DID SCE&G DO THEN?**

16 A. On November 16, 2017, SCE&G proposed to the public a rate and
17 regulatory plan to resolve these issues (the “November 2017 Proposal”).
18 The terms of the November 2017 Proposal included:

- 19 1. An immediate 3.5% reduction in electric rates;
- 20 2. An offer to permanently write-off approximately \$810 million in
21 nuclear investment;

1 3. An offer to absorb the acquisition costs (\$180 million) of 540 MW
2 of replacement generation; and

3 4. Use of the net proceeds of the Toshiba Corporate Guarantee
4 Settlement Payment (approximately \$1.1 billion), and the value of
5 future abandonment tax benefits, to reduce the cost to be recovered
6 from customers.

7 The other elements of the November 2017 Proposal largely track the No
8 Merger Benefits Plan discussed below.

9 **Q. WHAT WAS THE RESPONSE TO THE NOVEMBER 2017**
10 **PROPOSAL?**

11 A. The proposal was not received favorably. Over the following weeks,
12 SCE&G's leadership gauged the reaction to the November 2017 Proposal
13 and concluded that SCE&G would not be able to offer a settlement
14 proposal on a standalone basis that would be received favorably.

15 **VI. THE MERGER DISCUSSIONS AND MERGER AGREEMENT**

16 **Q. PLEASE DESCRIBE THE SUBSTANTIVE BUSINESS**
17 **COMBINATION DISCUSSIONS WITH DOMINION ENERGY.**

18 A. While Dominion Energy had initiated preliminary discussions with
19 SCANA about a possible combination in the summer of 2017, no
20 substantive merger discussions had resulted from those contacts. On the
21 evening of Monday, November 27, 2017, SCANA's senior leaders met
22 with Thomas Farrell, Dominion Energy's CEO. During that meeting, Mr.

1 Farrell described a possible package of customer benefits that Dominion
2 Energy could underwrite that went far beyond what SCE&G had previously
3 offered. SCANA's leadership team determined that Dominion Energy's
4 proposed solution should be seriously evaluated. SCANA's Board
5 convened two days later and concurred. Detailed negotiations ensued.

6 After conducting extensive due diligence and negotiation, SCANA's
7 leadership presented a combination agreement to SCANA's Board. On the
8 evening of January 2, 2018, SCANA's Board unanimously approved it and
9 agreed to recommend its adoption by shareholders. The combination
10 agreement with Dominion Energy was announced on the following day.
11 SCANA's shareholders approved the merger on July 31, 2018.

12 **Q. WHAT ARE THE REGULATORY CONDITIONS TO CLOSING?**

13 A. A copy of the Agreement and Plan of Merger agreement is attached
14 as *Exhibit __ (JEA-2)*. The conditions to closing are set forth in detail
15 there at Section 6.01 and Appendix A. To summarize, the combination can
16 only close if this Commission approves the combination with no material
17 changes to its terms or alternatively makes a finding that the combination is
18 in the public interest or that there is an absence of harm to South Carolina
19 ratepayers from it. An additional condition of the combination's closing is
20 that the Commission approve the jointly proposed NND Project cost
21 recovery plan with no material changes to its terms, conditions or
22 undertakings and no significant change to the economic value of the plan.

1 The jointly proposed NND Project cost recovery plan is the Customer
2 Benefits Plan contained in the Joint Petition. The closing of the
3 combination is also conditioned on there being no change in the BLRA or
4 any South Carolina public utility law that would reasonably be expected to
5 have an adverse effect on SCANA or any of its subsidiaries. This is only a
6 summary of the terms of the agreement, and reference should be made to
7 the agreement itself for a full picture of them.

8 **VII. THE NO MERGER BENEFITS PLAN**

9 **Q. WHAT ALTERNATIVE SHOULD THE COMMISSION CONSIDER**
10 **IF THE CUSTOMER BENEFITS PLAN IS NOT APPROVED OR**
11 **DOES NOT GO INTO FORCE?**

12 A. SCE&G asks the Commission to approve the No Merger Benefits
13 Plan as the disfavored alternative to the Customer Benefits Plan if that plan
14 does not go into force. A statement of the provisions of the No Merger
15 Benefits Plan was attached to the Joint Petition as Exhibit 10, and is
16 attached to my testimony as *Exhibit* __ (*JEA-3*). The key features of the
17 No Merger Benefits Plan are set forth in the testimony of Ms. Griffin and
18 Mr. Kochems as follows:

19 1. SCE&G will provide retail electric customers a reduction of
20 3.5% as compared to its annualized 2017 retail electric bills and subject to
21 fuel clause adjustments and other non-NND adjustments, including rate

1 case adjustments. SCE&G will maintain this rate reduction in force until
2 the next general retail electric rate proceeding;

3 2. SCE&G will apply the Toshiba Corporate Guarantee
4 Settlement Payments, net of amounts used to satisfy Project liens, in an
5 amount of approximately \$1.1 billion to reduce the outstanding balance of
6 the NND Project investment;

7 3. SCE&G will not seek any additional revised rate increases
8 associated with the remaining balance of NND Project investment under the
9 BLRA. SCE&G will absorb any forgone returns or amortization of NND
10 investment through existing rates pending the next general retail electric
11 rate proceeding;

12 4. SCE&G will recognize for rate-making purposes a \$490
13 million write-off against its NND Project investment, and will write-off an
14 additional \$361 million in associated regulatory assets;

15 5. SCE&G will credit all tax savings and related benefits arising
16 out of tax deductions associated with the abandonment of the NND Project
17 to reduce the costs and revenue requirements to be recovered from
18 customers;

19 6. SCE&G will amortize the net outstanding balance of the
20 NND Project investment over a straight-line 50-year amortization period,
21 producing an annual amortization expense of \$62 million. As indicated

1 above, SCE&G will absorb this amortization expense through existing rates
2 until the next general retail electric rate case;

3 7. SCE&G will issue a request for proposals for 100 MW of
4 new solar capacity, with associated battery storage, to be added to
5 SCE&G's system;

6 8. SCE&G will write off the \$180 million acquisition cost of the
7 540 MW Columbia Energy Center combined cycle gas generation facility
8 in Gaston, South Carolina. Customers will never be required to pay this
9 acquisition cost and will only be responsible for ongoing costs of operating
10 and maintaining this plant; and

11 9. The Tax Rider set forth in Exhibit 1 to Mr. Rook's testimony
12 will apply to SCE&G's retail electric rates.

13 **VIII. THE BASE REQUEST**

14 **Q. WHAT DOES SCE&G REQUEST IF NEITHER THE CUSTOMER**
15 **BENEFITS PLAN NOR THE NO MERGER BENEFITS PLAN GOES**
16 **INTO FORCE?**

17 A. If neither the Customer Benefits Plan nor the No Merger Benefits
18 Plan goes into force, SCE&G seeks approval of the "Base Request" as the
19 least favored option. The Base Request was attached to the Joint Petition in
20 this docket as Exhibit 11, and is attached to my testimony as *Exhibit* __
21 (*JEA-4*). The key features of the Base Request are as follows:

1 1. The Company will not offer any rate mitigation apart from
2 the Company's commitment not to seek rate relief in the current docket and
3 the use of the Toshiba Corporate Guarantee Settlement proceeds to reduce
4 the balance of NND costs to be recovered;

5 2. SCE&G will request for the Commission to authorize the
6 accounting treatment and recovery of the \$361 million in regulatory assets
7 that Mr. Kochems describes in his testimony;

8 3. SCE&G will not offer to recognize any write down of its
9 NND Project investment for ratemaking purposes;

10 4. SCE&G will credit the net benefit of the Toshiba Corporate
11 Guarantee Settlement Payment after payment of Project liens to reduce the
12 outstanding balance of the NND Project costs;

13 5. SCE&G will implement a Tax Rate Rider, and would allow
14 any future cost savings related to the Tax Cuts and Jobs Act of 2017 to be
15 considered in a future rate proceeding; and

16 6. SCE&G will record the net balance of NND Project
17 investment, approximately \$3.6 billion, in a regulatory asset and amortize
18 that asset into retail electric expenses over 50 years on a straight-line basis,
19 but will not seek recovery for the associated costs in this proceeding.

1 **IX. PRUDENCY MATTERS**

2 **Q. WHAT ARE YOU SPECIFICALLY ASKING THE COMMISSION**
3 **TO DO CONCERNING THE PRUDENCY OF THE DECISION TO**
4 **ABANDON THE PLANT?**

5 A. For the reasons stated above, SCE&G respectfully requests that the
6 Commission rule that the decision to abandon construction of the Units on
7 July 31, 2017 was reasonable and prudent. As of July 31, 2017, SCE&G no
8 longer had a co-owner with whom it could share risks and costs, as Santee
9 Cooper had done up until that point. Completing even one Unit in those
10 circumstances would not have been prudent given the magnitude of the
11 risks involved and the economic impacts on customers.

12 The facts also show that it would not have been prudent to abandon
13 the Project at any time before July 31, 2017. Before the Westinghouse
14 bankruptcy filing, SCE&G was constructing the plant under the Fixed Price
15 Option. Completing the Project at that cost was shown to be in the best
16 interest of customers. The prudence of continuing to construct the Units at
17 that price had been specifically approved by the Commission in Docket No.
18 2016-223-E.

19 SCE&G had shown in testimony by Dr. Lynch in Docket No. 2016-
20 223-E that completing the Units would have saved customers between \$172
21 million and \$586 million per year compared to the cost of abandoning the
22 Units and replacing them with other generation. Dr. Lynch made showings

1 of customer benefits in the two prior update proceedings, Docket Nos.
2 2012-203-E and 2015-103-E, and showed the same when the initial BLRA
3 order was issued in Docket No. 2008-196-E. Furthermore, if SCE&G had
4 canceled the Project before Westinghouse had filed for bankruptcy,
5 SCE&G may have been in breach of the EPC Contract and therefore liable
6 to Westinghouse for damages and costs. In that event, there would have
7 been no guarantee payment from Toshiba. There was no basis prior to the
8 Westinghouse bankruptcy to conclude that abandoning the Project would
9 have been in the customers' best interest.

10 **Q. WOULD IT HAVE BEEN PRUDENT TO ABANDON THE**
11 **PROJECT WHEN WESTINGHOUSE DECLARED BANKRUPTCY?**

12 A. It would not have been prudent for SCE&G to abandon the Project at
13 the time of Westinghouse's bankruptcy filing. As discussed above, the
14 initial information provided by Westinghouse indicated that the amount of
15 additional cost required to complete the Project was not materially greater
16 than the corporate guarantee payment anticipated from Toshiba. Even with
17 the new cost and schedule calculations that were prepared by SCE&G and
18 Santee Cooper independently of Westinghouse, the economic analysis
19 showed that it was still quite possible that completing one Unit and
20 suspending or abandoning construction of the other would have been in the
21 customers' best interest. When Santee Cooper executive leadership
22 indicated that it was likely going to recommend suspending the Project to

1 the Santee Cooper Board, SCE&G considered the option of completing one
2 Unit as a 100% owner. SCE&G reached out to other utilities that were
3 connected to our transmission system to ascertain their interest in taking
4 Santee Cooper's role. These inquiries were not successful. SCE&G was
5 prepared to (and did) cancel the Project immediately upon the vote by the
6 Santee Cooper Board not to proceed further. Until Santee Cooper made
7 that decision, there were viable options for continuing the Project.

8 **X. CONCLUSION**

9 **Q. WHAT ARE YOU ASKING THE COMMISSION TO DO**
10 **CONCERNING THE COSTS THAT HAVE BEEN SPENT TO DATE**
11 **ON THE PROJECT?**

12 A. Mr. Kochems will provide an accounting of the capital costs spent
13 on the NND Project since its inception, net of transmission costs and the
14 cost of the other assets that are being placed in service. In his testimony,
15 Mr. Kochems will show that these capital costs have been reviewed,
16 verified, and determined to be reasonable and prudent costs. They are well
17 within the previously approved capital cost forecasts for the Project. As
18 such, they continue to be subject to the prior, binding prudence
19 determinations made by the Commission in Order No. 2016-794 and prior
20 orders. Furthermore, all costs incurred before June 30, 2016, have been
21 reviewed and audited by ORS in revised rates proceedings and affirmed in
22 ORS reports to the Commission as reasonable and appropriate costs for

1 setting rates by this Commission. Such reports have been filed in each
2 revised rates proceeding since 2008 and have been accepted by the
3 Commission in the resulting revised rates order in each case. In effect,
4 those costs have been approved by this Commission and by ORS twice,
5 once as projected costs in update dockets, and once in revised rates
6 proceedings as costs actually expended. The costs so approved include all
7 costs that would be recovered from customers under the Customer Benefits
8 Plan.

9 SCE&G's position is that all costs spent to date on the Project are
10 subject to prior binding prudence determinations. However, to be clear,
11 SCE&G asks the Commission to adopt the cost schedule presented by
12 Mr. Kochems as the approved cost schedule for the Project in
13 abandonment, and to reaffirm the prudence of these costs.

14 **Q. WHAT ARE YOU ASKING THE COMMISSION TO DO**
15 **CONCERNING THE COMBINATION WITH DOMINION**
16 **ENERGY?**

17 A. SCE&G is asking the Commission to approve the combination with
18 Dominion Energy with no material changes to its terms, if the Commission
19 determines that formal approval of the combination is appropriate under
20 S.C. Code Ann. § 58-27-1300 or any other applicable law. Alternatively, if
21 the Commission determines that formal approval of the combination is not
22 required, SCE&G is asking the Commission to find that: (i) the

1 combination is in the public interest; or (ii) there is an absence of harm to
2 South Carolina ratepayers as a result of the combination.

3 **Q. ARE THERE ANY OTHER REQUESTS?**

4 A. Yes, SCE&G is also asking the Commission to: (i) terminate the
5 requirement that SCE&G provide the semi-annual update on construction
6 progress required by Order No. 2016-794; and (ii) acknowledge that with
7 the cessation of construction, the filing of quarterly reports on construction
8 progress is no longer required under S.C. Code Ann. § 58-33-277 and
9 Order No. 2009-104(A).

10 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

11 A. Yes, it does.